Step 5: Representation by Corporate Executive Maijhabang

Based on the representations stated above, except as documented below, I support the auditor's opinion expressed.

Comments by CE

No changes to the audit opinion

Recommended amendments to Auditor's Report	Reasons

Signed by:

Corporate Executive

5/12/12
Date

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE MATJHABENG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Matjhabeng Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment of R4 456 966 678 (2011: R4 586 902 161), as disclosed in note 8 to the financial statements, to substantiate the values recorded in the asset register. I have not determined the correct net carrying amount of property, plant and equipment or the accuracy of depreciation as it was impracticable to do so due to inadequate descriptions and locations recorded in the asset register to facilitate physical verification of the condition and existence of the assets. In addition, the asset register includes assets without values. I was unable to confirm by alternative means whether the municipality accurately had valued all its assets and conducted impairment assessment for all municipal assets at each reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment* and GRAP 21, *Impairment of non-cash-generating assets* and GRAP 26, *Impairment of cash-generated assets*. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for property, plant and equipment.

Investment property

5. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment of R283 160 912 (2011: R314 042 068), as disclosed in note 50 to the financial statements, to substantiate the values recorded in the asset register. I have not determined

the correct net carrying amount of investment property or the accuracy of depreciation as it was impracticable to do so due to inadequate descriptions and locations recorded in the asset register to facilitate physical verification of the condition and existence of the assets. In addition, the asset register includes assets without values. I was unable to confirm by alternative means whether the municipality had accurately valued all its assets and conducted impairment assessment for all municipal assets at each reporting date in accordance with SA Standards of GRAP, GRAP 16, *Investment property* and GRAP 26, *Impairment of cash-generated assets*. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for investment property.

Consumer debtors

6. I was unable to obtain sufficient appropriate audit evidence of consumer debtors with a balance of R1 493 489 369 (2011: R1 142 535 294), as disclosed in note 6 to the financial statements, due to consumers being billed using incorrect tariffs, accounts with credit balances totalling R21 128 890 and the lack of approval for debt written off. I was unable to confirm the balance for the consumer debtors by alternative means. In addition certain consumer accounts were not impaired in terms of International Accounting Standard, IAS 39, *Financial instruments: Recognition and measurement*. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for consumer debtors.

Non-current consumer debtors

7. I was unable to obtain sufficient appropriate audit evidence for non-current consumer debtors with a balance of R23 057 044 (2011: R19 879 217), as disclosed in note 9 to the financial statements, due to the municipality being unable to provide signed service contracts with renegotiated payments terms. In the absence of payments after year-end, I was unable to confirm the existence, completeness and valuation of and the municipality's rights to non-current debtors and whether any adjustments were necessary to the amounts disclosed for non-current consumer debtors.

Inventory

8. The municipality did not record all inventories that met the recognition criteria set out in the SA Standards of GRAP, GRAP 12 *Inventory*. The municipality also did not perform an inventory count at year-end to verify the existence of inventory. I have not determined the correct amount of inventory as it was impracticable due to lack of inventory records.

Trade and other payables

9. The municipality did not have adequate systems in place to update and reconcile leave records, which resulted in the accrued leave pay as disclosed in note 14 and accumulated surplus being understated by R19 141 020, respectively. In addition, I was unable to obtain sufficient appropriate audit evidence for payables amounting to R48 900 163, representing retention monies and accruals, as disclosed in note 14 to the financial statements, due to contracts indicating the agreed-upon retention monies and a detailed breakdown of accruals not being provided for audit purposes. I was unable to confirm the accrued leave pay and accruals by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed for payables.

Provisions

10. I was unable to obtain sufficient appropriate audit evidence for provisions amounting to R86 063 718 (R58 483 608), as disclosed in note 18 to the financial statements, in respect of rehabilitation of landfill sites due to lack of evidence to support assumptions used in the calculation this provision; consequently, I was unable to confirm the completeness and valuation of provision for landfill sites by alternative means. I was unable to determine whether any adjustments were necessary to the amount disclosed for the provision.

Leases

11. SA Standards of GRAP, GRAP 13, *Leases* defines the criteria for the classification of leases as either a finance lease or an operating lease. I was unable to obtain sufficient appropriate audit evidence about leased assets of R7 073 268 (2011: R11 845 900), as disclosed in note 13 to the financial statements, and operating expenses of R38 367 078 disclosed in note 34, due to contracts entered into with the lessors not provided. I was unable to confirm the correct treatment of the leases in terms of GRAP 13 by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for leases.

Expenditure

12. I was unable to obtain sufficient appropriate audit evidence for general expenditure of R39 356 034, as disclosed in note 34 to the financial statements. This is due to an inadequate system to account for expenditure and the management of the filing system not functioning effectively. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to this amount were necessary.

Employee related expenditure

13. I was unable to obtain sufficient appropriate audit evidence for overtime payments of R37 367 346. (2011: R 41 254 810), as disclosed in note 27 to the financial statements, due to supporting documentation that could not be obtained for payments made. The municipality's available records and information did not permit the application of alternative procedures. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to this amount and accumulated surplus were necessary.

Service charges

14. I was unable to obtain sufficient appropriate audit evidence for service charges income of R737 670 225 (2011: R657 988 460), as disclosed in note 23 to the financial statements, due to the municipality not providing supporting documents for adjustments made to revenue and evidence for water and electricity consumed by the customers. Furthermore, the municipality did not bill consumers for all the services delivered. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for service charges.

Revenue from rental of facilities and equipment

15. I was unable to obtain sufficient appropriate audit evidence for revenue generated from rental of facilities and equipment of R10 492 365 (2011: R10 084 902) as disclosed in note 37 to the financial statements. The municipality did not provide receipts and contract agreements supporting rental income that was earned. I was unable to confirm the revenue from rental facilities and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to this amount are necessary.

Value-added tax (VAT) payable

16. The municipality made payments to suppliers who were not registered for VAT, resulting in understatement of VAT payable as disclosed in note 15 to the financial statements and understatement of trade and other receivables by R5 591 115 respectively.

Disclaimer of opinion

17. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

18. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

19. As disclosed in note 41 to the financial statements, the corresponding figures for 2010-11 have been restated as a result of errors discovered during 2011-12 in the financial statements of the Matjhabeng Local Municipality at, and for the year ended, 30 June 2011.

Funding of operations

20. During the financial year, the municipality was informed that section 20 of DoRA was invoked for the repayment of unspent conditional grants. Unspent conditional grants for the period 2005-06 to 2009-10 totalling R43 026 325, as disclosed in notes 17 and 24 to the financial statements, were offset against the equitable share allocation of the municipality in the current year.

Going concern

21. As disclosed in note 44 to the financial statements, the ability of the municipality to continue as a going concern is dependent on a number of factors, including obtaining funding on a continuous basis as well as compliance with the in-year reporting mechanism of the National Treasury in order to secure funding from the government to cover expenses and meet obligations. These conditions indicate the existence of a material uncertainty that may cast doubt on the municipality's ability to operate as a going concern and to fund its operations.

Unauthorised expenditure

22. As disclosed in note 45 to the financial statements, unauthorised expenditure to the amount of R1 075 758 597 (2011: R619 645 905) was incurred as a result of the municipality's failure to implement budgetary controls.

Fruitless and wasteful expenditure

23. As disclosed in note 46 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R76 391 793 (2011: R41 013 003) during the year under review due to the municipality's inability to pay its creditors on time.

Irregular expenditure

24. As disclosed in note 47 to the financial statements, the municipality incurred irregular expenditure of R160 377 149 (2011: R112 194 003) during the year under review due to inadequate procurement processes followed.

Additional matter

25. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Supplementary explanations of budget variances presented outside the financial statements

26. The supplementary explanations of budget information contained in actual vs. budget (revenue and expenditure), as referred to in note 50, do not form part of the financial statements. I have not audited these explanations and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedules

27. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

28. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

29. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.

30. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPI).

    The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

31. The material findings are as follows:

Usefulness of information

Presentation

32. Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

33. The MSA, section 41(c) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 86% of the reported objectives, 92% of reported indicators and 99% of reported targets are not consistent with the objectives, indicators and targets as per the approved IDP. This was due to insufficient policies and procedures providing guidance on the requirements of the regulations and a lack of an adequate performance management system.

Measurability

34. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets relevant to the infrastructure department's objectives were not specific in clearly identifying the nature and the required level of performance.

35. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets relevant to the infrastructure department's objectives. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

36. The FMPPI requires that the time period or deadline for delivery be specified. A total of 100% of the targets relevant to the infrastructure department's objectives were not time bound in specifying a time period or deadline for delivery.

37. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators/measures relevant to the infrastructure department's objectives were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.

38. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators relevant to the infrastructure department's objectives were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.

39. All findings with regard to measurability of predetermined objectives occurred due to inadequate internal policies and procedures being implemented and monitored over the processes pertaining to the reporting of performance information.

Relevance

40. The FMPPI requires that the indicator should relate logically and directly to an aspect of the institution's objectives. A total of 100% of indicators did not relate logically and directly to an aspect of the municipality's objectives as per the IDP. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the IDP.

Reliability of information

Accuracy

41. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual

reported performance relevant to 100% of the infrastructure department's development objectives. Due to limitations of institution's records not permitting the application of alternative audit procedures, I was unable to perform such.

Compliance with laws and regulations

42. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Strategic and planning management

43. The municipality did not give effect to its IDP and conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA and Municipal planning and performance management regulation 6 (MPPMR).

44. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

45. The municipality did not set measurable performance targets with regard to each development priority and objective as required by section 41 of the MSA.

46. The municipality did not monitor performance with regard to each of those development priorities and objectives and against the key performance indicators and targets set, as required by section 41 of the MSA.

Budget

47. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor, relevant provincial treasury and the accounting officer of the municipality, as required by section 71(1) of the MFMA.

48. The accounting officer did not assess the municipality's performance for the first half of the financial year, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.

Annual financial statements, performance and annual reports

49. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure, disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimed audit opinion.

50. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.

51. The municipal council did not adopt an oversight report containing comments on the annual report within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.

52. The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Audit Committee

53. The audit committee did not advise the council, political office bearers, accounting officer and management staff on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.

54. The audit committee did not advise the council, political office bearers, accounting officer and the management staff on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

55. The audit committee did not advise the council , political office bearers, accounting officer and the management staff on matters relating to compliance with the MFMA and DoRA, as required by section 166(2)(a)(vii) of the MFMA.

56. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA, as required by section 166(2)(b) of the MFMA.

57. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.

58. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Internal audit

59. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
- it did not report to the audit committee on the implementation of the internal audit plan.
- it did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.

60. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.

61. The internal audit unit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and MPPMR 14(1)(a).

62. The internal audit unit did not assess the functionality of the performance management system, whether the performance management system complied with the requirements of

the MSA and the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by MPPMR 14(1)(b)(i)-(iii).

63. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by MPPMR 14(1)(c).

Human resource management

64. Appointments were made in posts which were not provided for on the approved staff establishment of the municipality, in contravention of section 66(3) of MSA.

65. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.

66. The employment contract of the municipal manager could not be obtained to confirm that the duration of the contract does not exceed a period of five years, as required by section 57(6) of the MSA.

67. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

Procurement and contract management

68. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulation 17(a) and (c).

69. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by means of inviting competitive bids and that deviations were approved by the accounting officer only if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1).

70. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).

71. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).

72. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).

73. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.

74. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).

75. Contracts were awarded to and quotations accepted from providers that are listed on the National Treasury's database as persons prohibited from doing business with the public sector, in contravention of SCM regulation 38(1)(c).

76. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

77. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

78. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.

79. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by SCM Regulation 5.

80. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to and quotations accepted from bidders who had submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

81. Contracts were awarded to and quotations accepted from providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

82. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

83. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

84. The accounting officer failed to implement measures to combat the abuse of the SCM system as per the requirements of SCM regulation 38(1) because awards were made to providers who, during the last five years, had failed to perform satisfactorily on a previous

contract with the municipality or municipal entity or other organ of state and abused the SCM system of the municipality.

Expenditure management

85. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by sections 65(2)(e) and 99(2)(b) of the MFMA.

86. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MFMA.

87. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

88. Unauthorised, irregular, fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

Revenue management

89. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

90. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

91. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

92. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

93. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

94. The municipality continued to display a lack of stability in senior management positions with the result that positions of senior managers, including the position of the chief financial officer, have been vacant for a prolonged period (more than 24 months). Officials were appointed in acting capacities, which resulted in a breakdown in the implementation of basic daily/monthly disciplines due to lack of accountability.

95. The accounting officer, together with his management team, did not fully commit to the development, implementation and monitoring of a practical action plan to address internal control deficiencies indentified in preceding years so as to eliminate repeat audit findings.

96. Municipal structures delegated with the oversight responsibility did not fully enforce management accountability by implementing effective oversight and by demanding credible information.

97. Management did not implement effective human resource (HR) management practices such as effective recruitment to ensure that adequate and sufficiently skilled resources are in place. The municipality did not have a performance management system in place, which resulted in the absence of an effective performance management culture.

98. Management did not continuously establish, review and communicate policies and procedures to enable understanding and execution of internal control objectives, processes and responsibilities to mitigate the risks of the municipality.

Financial and performance management

99. Management did not implement proper record keeping in a timely manner to ensure that complete, reliable and accurate information is easily accessible to support financial and performance reporting.

100. Management did not implement controls over the preparation of daily/monthly disciplines of processing and reconciling of transactions due to a lack of sufficiently skilled staff and the lack of policies and procedures.

101. The municipal officials continue to disregard compliance with laws and regulations due to lack of management tools to review and monitor compliance and the lack of consequences for transgressors, resulting in a consistent increase in reported irregular as well as fruitless and wasteful expenditure without action being taken against the responsible officials.

Governance

102. Management did not prioritise the implementation of appropriate risk management activities to ensure that regular risk assessments, including consideration of information technology (IT) risks and fraud prevention, are conducted and that a risk strategy to mitigate the risks is developed and continuously monitored.

103. Management disregarded internal audit findings and therefore a significant number of repeat findings were reported, resulting in ineffectiveness of the internal audit function.

104. The internal audit function did not conduct internal audits/reviews of performance management systems that focused on compliance aspects as well as the usefulness and reliability of the reported performance information.

105. Internal audit did not review the financial and performance reports prior to its submission to the audit committee or external auditors due to management not making available these reports to the internal audit unit for such reviews.

106. The audit committee did not function throughout the year. Members were appointed five months into the current financial year. Consequently, the committee did not approve the internal audit plan and has not exercised any oversight of the implementation of the matters reported by the internal audit function.

OTHER REPORTS

Investigations

107. An independent consulting firm was appointed by the municipality during the 2010-11 financial year to conduct an investigation into various aspects at the municipality covering the financial years 2009-10 to 2010-11. Only a draft report was submitted to the municipality. No date for finalising this report has been provided.

Auditor - General

Bloemfontein

5 December 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence